

## Message Text

CONFIDENTIAL

PAGE 01 EC BRU 08010 092110Z

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C O N F I D E N T I A L EC BRUSSELS 08010

EXDIS

E.O. 11652: GDS

TAGS: ETRD, EEC, PFOR, GATT

SUBJECT: EC COMMISSION CONCERN ABOUT US-EC RELATIONS

1. SUMMARY: SIR CHRISTOPHER SOAMES USED OUR FIRST MEETING AFTER THE SUMMER BREAK TO SPELL OUT HIS GROWING APPREHENSION OVER RECENT DEVELOPMENTS IN US-EC ECONOMIC AND TRADE RELATIONS. HE IS EXTREMELY WORRIED THAT, AS DISCUSSED WITH THE PRESIDENT AND SECRETARY IN BRUSSELS LAST MAY, RESTRICTIVE TRADE ACTION IN A MAJOR CASE WILL OPEN PROTECTIONIST FLOODGATES AND KILL THE MTN. COMMISSIONER GUNDELACH EXPRESSED SIMILAR CONCERN IN A SEPARATE MEETING

ON SEPTEMBER 4. AFTER CITING CONCERNS OVER "FLOOD" OF TRADE RESTRICTIVE CASES ON US DOCKET AND "FEELING" THAT US ATTITUDE TOWARD CONSTRUCTIVE COOPERATION MAY BE CHANGING (OR AT LEAST IS THREATENED) HE URGED NEW, HIGH LEVEL POLITICAL COMMITMENT FROM USG. END SUMMARY.

2. IN EXTREMELY STRONG TERMS (EVEN BEYOND HIS USUAL CHURCHILLIAN RHETORIC), SOAMES OPENED THE SUBSTANTIVE DISCUSSION AT LUNCH ON SEPTEMBER 9 WITH A DIRE WARNING ABOUT THE CONSEQUENCES OF THE RECENT DEVELOPMENTS IN US-EC TRADE RELATIONS. HE SPECIFIED THE AUTOMOBILE ANTI-DUMPING AND CANNED HAM COUNTERVAILING DUTY CASES AS HAVING THE POTENTIAL OF CAUSING A SERIOUS DETERIORATION IN US-EUROPEAN RELATIONS AS WELL AS KILLING THE MTNS.

3. THE BASES FOR SOAMES' CONCERN ARE (A) THE PROSPECT OF SLOWER  
CONFIDENTIAL

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PAGE 02 EC BRU 08010 092110Z

ECONOMIC RECOVERY THAN EXPECTED ON BOTH SIDES OF THE ATLANTIC

WITH CONTINUING UNEMPLOYMENT LEADING TO INCREASED PROTECTIONIST PRESSURES; (B) THE "FLOOD" OF CASES INVOLVING RESTRICTIVE TRADE MEASURES; AND (C) A "FEELING" THAT US ATTITUDE TOWARD CONSTRUCTIVE COOPERATION AND NEGOTIATION IS UNDERGOING A SEA CHANGE TOWARD A HARD, UNCOMPROMISING LINE. IN PARTICULAR, HE STATED THAT THE FORTHCOMING ATTITUDE OF THE EC IN THE CHEESE CASE HAD APPARENTLY NOT BEEN TAKEN IN USG AS A CONTRIBUTION TO US-EC COOPERATION BUT AS AN EXAMPLE OF HOW THE US HAD TO BE TOUGH IN DEALING WITH THE COMMUNITY.

4. TO DOCUMENT THIS CHANGE, SOAMES CITED A RECENT INTERVIEW GIVEN BY STR DEPUTY YEUTTER IN US MAGAZINE "FEEDSTUFFS" OF AUGUST 4. CONTRASTING THE TONE IN THAT INTERVIEW WITH THAT WHICH CHARACTERIZED HIS MEETING WITH THE PRESIDENT AND THE SECRETARY IN MAY, SOAMES SAID IT WAS DIFFICULT TO SEE HOW GOOD RELATIONS COULD BE MAINTAINED AND SERIOUS NEGOTIATIONS CARRIED OUT IF THE "ANTAGONISTIC ATTITUDE" DISPLAYED BY YEUTTER REFLECTED THE CURRENT US POSTURE TOWARD THE EC.

5. ON THE SPECIFIC CASES, SOAMES REPEATED HIS INJUNCTION THAT THEY MUST "BE KILLED AT BIRTH OR THEY WILL GROW INTO ROBUST CHILDREN". ATTITUDES TOWARD CONSTRUCTIVE COMPROMISES WITH US WERE HARDENING BOTH IN COMMISSION AND MEMBER STATES. UNDER NO CIRCUMSTANCES WOULD HE ARGUE WITHIN THE COMMISSION FOR ACCOMMODATION ON HAM SUCH AS WE HAD ON CHEESE. HE SAID HE HAD BEEN GIVEN TO UNDERSTAND THAT THE POLITICAL CIRCUMSTANCES IN THE CHEESE CASE WERE UNIQUE; THE US WOULD BE ABLE TO DEAL WITH CANNED HAM EASILY. THE AUTOMOBILE CASE WOULD CONTINUE TO CAUSE TROUBLE IN A MAJOR TRADE AREA AND, IF WE ACTUALLY WITHHELD APPRAISEMENT, THE LID WOULD BLOW OFF.

6. AFTER HEARING SOAMES OUT, I MADE THE FOLLOWING POINTS:

A. THERE WAS NO REVERSAL OF US TRADE POLICY. ALL THE CASES WERE BEING PURSUED IN ACCORDANCE WITH US LAW AND THE ADMINISTRATION HAD LITTLE CONTROL OVER THE PROCESSES. THEY DID NOT REPEAT NOT REPRESENT A CONCERTED USG PROGRAM.

B. THUS FAR, NO RESTRICTIVE ACTIONS HAD BEEN TAKEN AND PROTECTIONIST PRESSURES EXISTED ON BOTH SIDES OF THE  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 EC BRU 08010 092110Z

ATLANTIC. THE EC COUNTRIES HAD TAKEN PRECAUTIONARY SURVEILLANCE MEASURES ON ITEMS LIKE TEXTILES AND PAPER PRODUCTS, CAUSING CONCERN IN US TRADE CIRCLES. THE EC ALSO CONTINUED TO APPLY AN EXTREMELY RESTRICTIVE REGIME ON AGRICULTURAL PRODUCTS UNDER THE CAP.

C. THERE WAS NO EVIDENCE OF ANY CHANGE IN US ATTITUDE TOWARD THE EC OR THE MTNS. AND WE HAVE CONSISTENTLY TAKEN

A FIRM POSITION ON THE NEED TO HOLD THE LINE AGAINST RESTRICTIVE TRADE MEASURES (E.G., THE OECD TRADE PLEDGE).

7. SOAMES RECOGNIZED THE LEGAL SITUATION AND COULD CITE ONLY THE YEUTTER INTERVIEW AS EVIDENCE OF A CHANGE OF US ATTITUDE. HOWEVER, HE POINTED OUT THAT IT WOULD BE TOO LATE IF WE WAITED QUIETLY FOR THE FINAL DECISIONS. ONCE RESTRICTIVE ACTION IS TAKEN ON A MAJOR TRADE ITEM LIKE AUTOMOBILES OR HAMS, THE FLOODGATES AGAINST PROTECTIONISM WILL BE BREACHED IRREPARABLY. IN THE AUTOMOBILE CASE, SOAMES ALSO RAISED KEY ISSUE REGARDING COMPATIBILITY OF US PROCEDURES WITH THE GATT ANTI-DUMPING CODE WHICH THE USG HAD SIGNED AND WAS NOW NOT IMPLEMENTING. THE CODE REQUIRES THAT INVESTIGATION OF DUMPING AND INJURY PROCEED SIMULTANEOUSLY WHILE US LAW REQUIRES FORMER BE DONE FIRST. IF SALES AT LESS THAN FAIR VALUE ARE FOUND, THIS TRIGGERS WITHHOLDING OF APPRAISEMENT. REGARDLESS OF WHETHER ITC FINDS INJURY AND WHETHER DUMPING DUTIES ASSESSED LATER, ACT OF WITHHOLDING APPRAISEMENT IS HIGHLY DISRUPTIVE OF TRADE AND IS REGARDED AS THE REALLY CRITICAL PROBLEM. MANY IN EC ARE CITING THIS INCOMPATIBILITY WITH THE GATT CODE AS EVIDENCE OF FACT THAT US CANNOT BE DEPENDED UPON TO IMPLEMENT COMMITMENTS IT UNDERTAKES. ACCORDING TO SOAMES, THE IMPLICATIONS EXTEND WELL BEYOND ANTI-DUMPING CODE AND GO THE HEART OF WHOLE MTN EFFORT IN NON-TARIFF BARRIERS NEGOTIONS. THEY HAD BEEN WILLING TO GLOSS OVER THIS POINT IN PAST BECAUSE SPECIFIC CASES WERE NOT VERY SIGNIFICANT, BUT TRADE INVOLVED IN AUTOS IS TOO LARGE TO PERMIT ITS CONTINUING TO BE IGNORED.

8. IN CONCLUSION, SOAMES (AND WELLENSTEIN) ASKED THAT THE FOLLOWING REQUESTS BE TRANSMITTED FOR HIGH-LEVEL ATTENTION:

A. ON THE SPECIFIC ITEMS - AUTOMOBILES AND CANNED HAMS -  
CONFIDENTIAL

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PAGE 04 EC BRU 08010 092110Z

THE ADMINISTRATION ACT PROMPTLY TO ENSURE THAT THE CASES ARE DISPOSED OF QUICKLY WITHOUT RESTRICTIVE ACTION. ON AUTOMOBILES THE ADMINISTRATION SHOULD GIVE A POLITICAL LEAD BY STATING PUBLICLY (AS THE COUNCIL OF WAGE AND PRICE STABILITY DID IN ITS SEPTEMBER 5 REPORT) THAT "THERE IS NO REASONABLE INDICATION" OF INJURY TO THE US INDUSTRY BY IMPORTS. IN ANY EVENT, THE ADMINISTRATION MUST AVOID WITHHOLDING OF APPRAISEMENT. RE CANNED HAMS, THE ADMINISTRATION SHOULD EXERCISE THE DISCRETION PROVIDED FOR IN THE TRADE ACT OF 1974 AND NOT REPEAT NOT APPLY COUNTERVAILING DUTIES.

B. EITHER PUBLICLY OR PRIVATELY, THERE IS NEED FOR A TOP-LEVEL RESTATEMENT OF US DETERMINATION TO AVOID RESTRICTIVE TRADE MEASURES AND TO PARTICIPATE CONSTRUCTIVELY - NOT

IN AN ADVERSARY WAY - IN THE TRADE NEGOTIATIONS.

9. COMMENT: ALTHOUGH SOAMES TENDS TO BE HEAVY-HANDED AND SOMETHING OF A BULLY, OTHER CONVERSATIONS (E.G. WITH A MUCH LOWER-KEYED GUNDELACH) REVEAL SERIOUS CONCERN ABOUT US TRADE POLICY. THE PRESENT ADVERSE ECONOMIC CLIMATE IN EUROPE MAKES EVERYONE NERVOUS AND CRITICISM OF US PROVIDES AN OUTLET. THE "FEELINGS" REFLECTED BY SOAMES AND GUNDELACH ARE NEVERTHELESS REAL AND PROBABLY SHARED IN CAPITALS. ANY ACTIONS AND STATEMENTS ALONG THE LINES SUGGESTED BY SOAMES WOULD, IN MY VIEW, BE DESIRABLE AND WORTHWHILE. IN PARTICULAR, I MUST EMPHASIZE THAT, SHOULD WE ACT ADVERSELY ON EITHER AUTOS OR HAMS, THE REACTION IN EUROPE WILL BE INTENSE AND COULD SERIOUSLY JEOPARDIZE, IF NOT KILL, PROSPECTS FOR ANY REAL TRADE NEGOTIATIONS (ESPECIALLY ON NTBS, AGRICULTURE OR FOOD RESERVES), AT LEAST WITH EC.GREENWALD

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